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THAILAND

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1999	2000	2001	1/
Income, Production and Employment:				
Nominal GDP	121,972	122,020	113,445	
Real GDP Growth (pct)	4.2	4.4	1.5-2.0	3/
GDP by Sector:				
Agriculture	11,815	11,127	9,899	
Manufacturing	39,780	40,778	37,815	
Services	15,818	15,888	14,647	
Government 4/	8,802	8,885	8,801	
Per Capita GDP (US$)	1,947	1,955	1,804	
Labor Force (000s)	32,719	33,260	33,490	3/
Unemployment Rate (pct)	4.2	3.7	3.6	3/
Money and Prices (annual percentage growth):				
Money Supply (M2)	2.1	3.7	5.4	5/
Consumer Price Inflation	0.3	1.6	2.0	3/
Exchange Rate (BHT/US$ - annual average)				
Official	37.84	40.16	44.51	6/
Balance of Payments and Trade:				
Total Exports FOB 7/	56,800	67,940	63,595	3/
Exports to United States 7/	12,654	14,874	12,804	
Total Imports CIF 7/	47,529	62,420	62,485	3/
Imports from United States 7/	6,385	7,317	7,227	
Trade Balance 7/	9,271	5,520	1,110	3/
Balance with United States 7/	6,270	7,557	5,577	
External Public Debt	36,024	33,817	30,939	5/
Fiscal Balance/GDP (pct)	-5.8	-4.05	-4.2	3/
Current Account Balance/GDP (pct)	10.2	7.5	4.1	3/
Debt Service Payments/GDP (pct)	11.6	10.4	N/A	
Gold and Foreign Exchange Reserves	34,781	32,661	32,600	5/
Aid from United States 8/	20.8	N/A	N/A	
Aid from All Other Sources	110.7	N/A	N/A	

All figures based on Royal Thai Government data.

1/ 2001 figures are all estimates based on six-month data unless otherwise indicated.
2/ Percentage changes calculated in local currency.
3/ Royal Thai Government projections.
4/ Government expenditure on GDP for illustrative purposes.
5/ Data as of August 2001.
6/ Based on nine-month data average.
7/ Merchandise trade under balance of payments concept.
8/ Based on fiscal year (October – September).

1. General Policy Framework

Since taking office in January 2001, the government of Prime Minister Thaksin Shinawatra has worked to accelerate Thailand's recovery from the 1997-98 East Asian financial crisis. The crisis began in Thailand, when a failed effort to defend the baht (the Thai currency) against exchange-rate speculation led the Bank of Thailand (BOT) to float the baht in July 1997. The baht lost half of its value against the U.S. dollar over the next six months, spreading the crisis to the real sector.

In the decade through 1995, Thailand enjoyed one of the world's highest growth rates. With the onset of the crisis, however, real GDP dropped by 1.5 percent in 1997 and 10.8 percent in 1998. Strong external demand paced an export-led recovery in 1999 and 2000, with GDP rising over four percent in both years. The global growth slowdown, compounded by uncertainties in the wake of the terrorist attacks in the United States, will ease GDP growth to a projected 1.5-2.0 percent in 2001. Over the long term, the Thai government must accelerate the slow pace of economic reform in order to raise the economy's growth potential.

Economic contraction associated with the financial crisis slashed Thai imports, which dropped from $72 billion in 1996 to just over $40 billion in 1998 before rebounding to $62.4 billion in 2000 and a projected $62.5 billion in 2001. Imports from the United States fell correspondingly, dropping from $8.7 billion in 1997 to $6.4 billion in 1999 before recovering to $6.7 billion in 2000 and a projected $7.3 billion in 2001. (Note: Different trade calculation methodologies result in discrepancies between U.S. and Thai figures; this report uses Bank of Thailand data).

In August 1997, a $17.2 billion IMF program helped Thailand begin restructuring its economy and financial sector. The government closed or took over insolvent financial institutions, tightened provisioning requirements for banks, and began implementation of legal reforms to create a more modern, transparent financial sector. While the financial crisis stabilized by late 1998, production and demand did not respond, and the government shifted its focus to stimulating domestic demand. With the support of the IMF, the government ended years of balanced or surplus budgets by running fiscal deficits of over 3 percent of GDP in 1998, close to 6 percent in 1999, about 4 percent in 2000, and a projected 4.2 percent in 2001.

The Thaksin administration has made stimulating domestic demand a priority, and is in the initial stages of implementing a $1.3 billion fiscal stimulus program aimed at job creation. The stimulus program is part of the budget for fiscal year 2002, which began on October 1, 2001.

The government is also setting up a $1.8 billion Village Fund scheme, which will allow nearly 80,000 villages and urban communities to set up one million baht (around $23,000) revolving credit programs. Another key government program, the Thailand Asset Management Corporation (TAMC), will collect approximately $29 billion in bad loans, primarily from state-owned banks and private asset management companies. A legacy of the financial crisis, the bad loans will be restructured or even foreclosed with an eye toward facilitating corporate restructuring and improving banks' balance sheets. The government is financing its stimulus programs through domestic bond sales, as well as foreign debt and grant assistance.

Thai monetary policy formally aims at keeping core inflation (excluding raw food and energy prices) between zero and 3.5 percent, but maintaining adequate system liquidity, keeping interest rates low, and stabilizing exchange rate movements are also major policy goals. The government uses a standard array of monetary tools but focuses on open market operations, particularly the repurchase market. The Thaksin administration has retained its commitment to inflation targeting but with a new emphasis on exchange rate stability. Current monetary policy does not target a specific level for the baht, but the government has said it will act to smooth volatility in the exchange rate.

2. *Exchange Rate Policy*

From 1984 to 1997, the baht was pegged to a basket of currencies of Thailand's major trading partners, with the U.S. dollar representing the largest share. The exchange rate averaged 25 baht to the dollar during that period. Following the depletion of Thailand's foreign exchange reserves in an unsuccessful attempt to defend the peg, the currency was allowed to float in July 1997 and depreciated to 50 baht per dollar by January 1998. As reform measures and IMF support took hold, the baht stabilized and has traded in the 36 to 45 baht per dollar range since March 1998, settling at the 42-45 baht per level for most of 2001.

The Thai government began liberalizing the exchange control regime in 1990 and has accepted IMF Article VII obligations. Commercial banks received permission to process larger foreign exchange transactions, and ceilings on money transfers were increased. Since 1991, Thai banks have offered foreign currency accounts for residents, although they are limited to $500,000 for individuals and $5 million for corporations (without conditions). After the baht was floated in July 1997, the government tightened conditions on foreign exchange, requiring customers to show evidence of foreign currency obligations to open foreign currency accounts. Thailand also required exporters to repatriate and deposit foreign exchange earnings more expeditiously. More recently, the government has restricted the supply of baht at any one time to 50 million (about $1.12 million) per non-resident counter party (unless there is an underlying transaction requiring the currency) to cut down on offshore speculation.

3. *Structural Policies*

Market forces generally determine prices. Under the Price of Goods and Services Act of 1999, the government retains authority to set price ceilings for the prices of sugar and cooking gas. The government is also authorized to monitor the prices of fourteen additional products. Although in practice few commodities are subject to formal price controls, the government uses its control of major suppliers of products and services under state monopoly, such as the petroleum, aviation, and telecommunications sectors, to influence prices in the market. The government plans to sell shares in these state-owned enterprises to the public but will retain majority ownership in each sector.

The Thai taxation system has undergone significant revision since 1992, when a Value-Added Tax (VAT) scheme was introduced to replace a multi-tiered business tax system. The VAT rate was raised from 7 to 10 percent in 1997, but lowered temporarily back to 7 percent in March 1999 to stimulate consumption; the rate is scheduled to revert to 10 percent on September 30, 2002. Exemptions for low revenue businesses were expanded in March 1999. Exporters are "zero rated" under the VAT system, but must file returns and apply for rebates. Thailand and the United States signed a tax treaty in November 1996 and the treaty entered into force in early 1998. The treaty eliminates double taxation and gives U.S. firms tax treatment equivalent to that enjoyed by Thailand's other tax treaty partners. The treaty will automatically terminate on January 1, 2003, however, if the United States and Thailand are unable to agree on an information exchange provision.

The Board of Investment exerts wide-ranging influence on the formulation and implementation of trade and investment policies. It has advanced industrial decentralization and export promotion through the granting of tax holidays, import duty exemptions, and other incentives to foreign direct investors. Thailand has applied to the WTO for an extension of its local content requirements in the manufacture of milk and dairy products, which have been in effect since 1995.

4. Debt Management Policies

Thailand's financial crisis resulted in part from a large private sector external debt burden, but these debt levels have declined markedly since the onset of the crisis, falling from $85 billion at the end of 1997 to $42 billion at the end of July 2001. Thailand entered the crisis with low levels of public debt, but public borrowings have since risen significantly as the government expended heavily to stabilize the financial sector and sought to stimulate the economy. At the end of 1997, total public sector external debt (including that of the Bank of Thailand) stood at $24 billion. By July 2001, the figure had risen to $30.9 billion. Total external debt service as a percentage of exports of goods and services stood at 15.7 percent at the end of June 2001, including 7.5 percent in public debt and 8.2 percent in private sector debt. (Note: Public sector external debt refers to loans borrowed or guaranteed by the government or state-owned enterprises from overseas lenders.)

Public sector debt is mostly long-term, and divided among direct borrowings and loans to state-owned enterprises guaranteed by the government, with the latter predominating. Mounting public sector debt, triggered by higher budget deficits, is a concern in Thailand, and the government is attempting to diversify its funding sources by developing a domestic bond market. By June 2001, total public sector debt, including the non-guaranteed debt of non-financial state-owned enterprises, had climbed to $62.6 billion, or 55.87 percent of Thailand's GDP, versus $40 billion, or 40 percent of GDP, at the end of 1997.

Thailand consistently met the targets and performance criteria elaborated in its IMF stand-by arrangement, which was completed in June 2000. The government began to repay the IMF in the fourth quarter of 2000 and other bilateral donors in 2001.

5. Significant Barriers to U.S. Exports

Tariffs: Thailand's high tariff structure remains a major impediment to market access in many sectors. A member of the World Trade Organization (WTO) and the ASEAN Free Trade Area (AFTA), Thailand has yet to complete efforts to rationalize a complicated tariff regime that has 44 rates. Highest tariff rates encompass locally produced import-competing products, including agricultural products, autos and auto parts, alcoholic beverages, fabrics, and some electrical appliances. In some cases, tariffs on unfinished products are higher than on related finished products. In the aftermath of the financial crisis, the government increased duties, surcharges, and excise taxes on a range of "luxury" imports from wine to passenger cars. However, the government continues to ease other import duties in line with WTO and AFTA commitments.

Corn and fresh potatoes are subject to a Tariff Rate Quota (TRQ) that limits import levels. The restricted entry period for corn imports under the TRQ, generally February to June, usually ensures that U.S. corn is not competitive in the Thai market.

Import Licenses: Thailand has committed to changing its import licensing procedures in connection with its WTO obligations. Import licenses still are required for 26 categories of items, down from 42 categories in 1995-1996. Licenses are required for the import of many raw materials, petroleum, industrial, textiles, pharmaceuticals, and agricultural items. Imports of used motorcycles and parts, household refrigerators using CFCs, and gaming machines are prohibited. Import of some items not requiring licenses nevertheless must comply with applicable regulations of concerned agencies, including extra fees and certificate of origin requirements in some cases. Imports of food, pharmaceuticals, certain minerals, arms and ammunition, and art objects require special permits from relevant ministries.

Service Barriers: In the banking sector, foreign banks are limited to three branches (of which two must be outside of Bangkok and adjacent provinces) and there are limits on expatriate management personnel, although foreign bankers report that requests for additional personnel customarily are approved. Since 1997, foreign ownership of Thai banks can exceed 49 percent for a period of ten years. (Foreign investors will not be forced to divest shares after 10 years, but will not be able to purchase additional shares.) Limits on foreign ownership of finance companies and securities companies were also liberalized in the aftermath of the financial crisis. Foreigners may hold majority stakes in Thai securities houses, although there are minimum investment requirements and restrictions on expatriate management.

Telecommunications: The provision of telecommunications services is dominated by two state operators, the Telephone Organization of Thailand (TOT) and the Communications Authority of Thailand (CAT). Private participation is currently limited to concessions in wireless and fixed line sectors. The government's telecommunications master plan calls for the corporatization of TOT and CAT, with a view to privatization and coupling with strategic partners in the coming years. A law passed in October 2001 capped foreign ownership of domestic telecommunications companies at 25 percent. The possible retroactive impact of this provision on current private concessionaires, most of which already have over 25 percent foreign ownership, remains unclear. Thailand's WTO commitments require full market liberalization by 2006.

Professional Services: The Alien Occupation Law reserves to Thai nationals certain employment, including within certain professional services such as accounting, architecture, law and engineering, the manufacture of traditional Thai handicrafts, and manual labor. All foreign nationals must obtain a work permit for employment.

Standards, Testing, Labeling, and Certification: The Thai Food and Drug Administration (TFDA) requires permits for the importation of all food and pharmaceutical products. Costs, testing, duration, and demands for proprietary information associated with the permitting process can be burdensome. Labels bearing product name, description, net weight or volume, and manufacturing/expiration dates, printed in Thai and approved by the TFDA must be affixed to all imported food products.

Investment Barriers: The U.S.-Thai Treaty of Amity and Economic Relations of 1966 (AER) accords U.S. citizens and businesses national treatment in many areas, exempting them from restrictions on foreign investment set out in the Alien Business Law (ABL). The AER does not exempt American investors from applicable restrictions in the fields of communications, transport, fiduciary functions, banking involving depositary functions, exploitation of land or other natural resources, and domestic trade in agricultural products. Some of these sectors are subject to limits on foreign equity participation, such as a 25 percent cap in the insurance and telecommunications sectors.

The AER and ABL generally do not affect projects established with Board of Investment (BOI) promotion privileges or export businesses authorized under the Industrial Estate Authority of Thailand. BOI employs a variety of measures, including tax and duty incentives, guarantees against certain risks, and certain permit exemptions, to promote foreign investment in five favored areas: agriculture and agricultural products, environmental protection, technological and human resource development, basic transportation, infrastructure and services, and targeted industries. BOI seeks to steer projects to economically disadvantaged locations and to promote use of local materials in production.

Non-Thai businesses and citizens generally are not permitted to own land unless given permission by the Board of Investment or unless land is on government-approved industrial estates. Exceptions include land necessary to the activities of petroleum concessionaires, part ownership of condominium buildings, and residences for foreign investors who invest a minimum of 40 million baht.

Government Procurement Practices: Thailand is not a signatory to the WTO Government Procurement Agreement. Procurement regulations require that non-discriminatory treatment and open bidding be accorded to all potential bidders. However, procuring agencies are required to accord a 15 percent price advantage to domestic suppliers over foreign suppliers. In addition, they retain the right to accept or reject any or all bids at any time, may modify the technical requirements during the bidding process, and are not bound to accept the lowest bid. A directive from the Prime Minister's office in March 2001 urging ministries and state enterprises to purchase local products and employ local consultants as a budget-saving measure has compounded transparency problems. In some instances, government contracts require use of locally produced or assembled components.

The government may require a counter-trade transaction on government procurement contracts valued at more than 300 million baht on a case-by-case basis, although the practice is not common. Restrictions on distribution by government hospitals of drugs not on the National List of Essential Drugs constrains the availability of imported products not on the list.

Customs Procedures: The Thai Customs Department enjoys considerable autonomy and some of its practices appear arbitrary and irregular. Companies handling U.S. imports into Thailand occasionally reported excessive paperwork and formalities and lack of coordination between customs and other import-regulating agencies. Efforts to introduce a paperless customs system, including adoption of the World Customs Organization harmonized code and the use of an Electronic Data Interchange (EDI) system, have improved operations but are still in the process of being fully implemented. The pilot program for EDI became operational early in 1998 and the system reportedly covered 90 percent of Thai exports and 70 percent of imports as of October 2001. Customs Act amendments that went into effect January 2000 established transaction value as the basic standard for assessing customs duties, but officials reportedly are not applying the new standard in all cases. A government commitment to eliminate certificate of origin requirements for information technology (IT) imports has not been implemented fully, causing delays in the importation of U.S. IT products. Customs officials have been receptive to training programs offered by the U.S. private sector on streamlining customs procedures and implementing "best practices" to improve performance.

6. Export Subsidies Policies

The government maintains several programs that benefit exports of manufactured products or processed agricultural products. These include credit at below market level on some government-to-government sales of Thai rice (agreed on a case-by-case basis); preferential financing for exporters in the form of packing credits with odd maturities or values otherwise unavailable in international credit markets; tax certificates for rebates of packing credits; and rebates of taxes and import duties for products intended for re-export. The Thai Ex-Im Bank currently offers interest rates on export credits below the prime rate offered by commercial banks. A 2000 law established a government office and fund to support small and medium enterprises, including market expansion abroad, but they are not operational yet.

7. Protection of U.S. Intellectual Property

The government has made significant progress in laying the legal foundation for IPR protection and enhancing enforcement efforts. During 1999 and 2000, the government passed amendments to the Trademark Act and the Patent Act, a Protection of Plant Varieties Act, and a Protection of Integrated Circuits Design Law. As of October 2001, the Senate and House had passed versions of a draft Trade Secrets Act, which await reconciliation and publication in the Royal Gazette to become effective. The government has drafted a Protection of Geographic Indications Act and an Optical Disk Factory Control Act for submission to the parliament. A specialized intellectual property department in the Ministry of Commerce has cooperated with U.S. industry associations to coordinate both legal reforms and enforcement efforts. A specialized intellectual property court established in 1997 has improved judicial procedures and imposed higher fines. Criminal cases generally are disposed of within six to twelve months from the time of a raid to the rendering of a conviction. An enforcement offensive commenced in June 2001 featured strong statements of commitment by the Prime Minister and cabinet and high-level police officials, boosted resources for enforcement efforts, and an increase in the level of raids on production and distribution facilities.

Despite growing enforcement activity and good cooperation with rights-holders, levels of piracy remain high. Thailand has been on the Special 301 Watch List since 1994, and in June 2001 a consortium of rights-holders filed a petition to have Thailand's GSP benefits revoked unless additional progress was achieved in IPR protection (petition still pending as of October 2001). Thailand is a member of the World Intellectual Property Organization, the Berne Convention, and the WTO Trade-Related Aspects of Intellectual Property (TRIPS) Agreement. Thailand is not a signatory to the Paris Convention or the Patent Cooperation Treaty, although aspects of those instruments are addressed by local law.

Obstacles to effective enforcement are numerous. Resource limitations, especially in the wake of the financial crisis, hamstring police capabilities and judicial administration alike. Corruption and a cultural climate of leniency can complicate many phases of the legal process. Irregularities in police and public prosecutor procedures occasionally have resulted in the substitution of insignificant defendants for major ones and the disappearance of vital evidence. The frequency of raids compromised by leaks from police sources has declined but remains a concern. Relatively few persons are serving time in jail for copyright infringement, although sentences and fines imposed have become more severe. Defendants sometimes disappear while on bail, and sentences occasionally are reduced or overturned on grounds that rights-holders sometimes regard as questionable. Pirates, including those associated with transnational crime syndicates, have responded to stepped up levels of enforcement with intimidation against authorities and rights-holders.

Patent examinations can take more than five years. Recent changes to Thailand's Safety Monitoring Program (SMP) in the pharmaceutical sector allow generic versions of a non-patented product go into SMP and be marketed even while original innovative products are in SMP, giving rise to data protection concerns. For products with a patent pending, civil remedies to recover damages suffered by the patent-holder during the pending of its application are available after the patent is granted but are deemed inadequate by rights-holders. The government retains compulsory licensing authority in some instances but has yet to exercise it. The Government Pharmaceutical Office, a significant producer of pharmaceutical products in Thailand, is exempt from registration and approval requirements in manufacturing and distributing medicine.

Although trademark-holders have won several notable cases, civil remedies remain largely untested as most rights-holders, especially copyright holders, choose to pursue criminal sanctions against violators. Rights-holders report that police cooperation is good and the frequency of raids is climbing. However, police undertake little enforcement apart from cases initiated by rights-holders. Effective prosecutions are labor-intensive for rights-holders, who investigate, participate in raids, help warehouse confiscated property, and prepare documentation for prosecution in a typical case.

The U.S. pharmaceutical, film, and software industries estimate lost sales to American rights-holders at over $200 million annually. Although the government has made progress in cultivating public support for strong intellectual property protection, the market for pirated products remains strong.

8. Worker Rights

a. *The Right of Association:* The Labor Relations Act of 1975 gives workers in the private sector most internationally recognized labor rights, including the freedom to associate. They may form and join unions and make policy without hindrance from the government and without reprisal or discrimination for union activity. In practice, however, cases of management action against union organizers occur, and employers use loopholes in the law to fire union organizers. In May, one such instance was accepted by the International Labor Organization's Committee on Freedom of Association. Unions in Thailand may have relationships with unions in other countries, and with international labor organizations. The State Enterprise Labor Relations Act, enacted in early 2000, restored to state enterprise workers the right to form and join trade unions.

b. *The Right to Organize and Bargain Collectively:* Thai workers have the right to bargain collectively over wages, working conditions, and benefits. About 900 private sector unions are registered in Thailand. Civil servants cannot form unions. However, they may be members of employee associations, state enterprise employees, essential workers (telecommunications, electricity, transportation, education, and health care personnel), and civil servants may not strike. Though legally recognized, collective bargaining is unusual in Thailand, and industry-wide collective bargaining is all but unknown. However, representatives of public sector associations and private sector unions do sit on various government committees dealing with labor matters, and are influential in setting national labor policies, such as the minimum wage.

c. *Prohibition of Forced or Compulsory Labor:* The Thai Constitution prohibits forced or compulsory labor except in cases of national emergency, war, or martial law. However, there are credible reports of sweatshops in which employers prevented workers from leaving the premises. There are no estimates of the numbers of such informal sector sweatshops.

d. *Minimum Age for Employment of Children:* The new 1998 Labor Protection Act went into effect on August 20, 1998. The act raises the minimum age for employment in Thailand from thirteen to fifteen. Persons between the ages of 15 to 18 are restricted to light work in non-hazardous jobs, and must have the permission of the Department of Labor in order to work. Nighttime and holiday employment of non-adults is prohibited. The new national education bill passed in August 1999 gives the children the right to free primary education through grade 12. Compulsory education is enforced through grade nine.

e. *Acceptable Conditions of Work:* Working conditions vary widely in Thailand. Large factories generally meet international health and safety standards, though there have been serious lapses involving loss of life. The government has increased the number of inspectors and raised fines for violators, but enforcement is still not rigorous. The usual workday in industry is eight hours. Wages in profitable export industries often exceed the legal minimum. However, in the large informal industrial sector wage, health, and safety standards are low and regulations are often ignored. Most industries have a legally mandated 48-hour maximum workweek. The major exceptions are commercial establishments, where the maximum is 54 hours. Transportation workers are restricted to 48 hours per week.

f. *Rights in Sectors with U.S. Investment:* Labor rights are generally respected in industrial sectors with heavy investment from U.S. companies. Most U.S. firms in Thailand work with internal workers' representatives or unions, and relations are constructive. With few exceptions, U.S. companies strictly adhere to Thai labor laws.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		2,666
Total Manufacturing		2,767
Food & Kindred Products	105	
Chemicals & Allied Products	399	
Primary & Fabricated Metals	69	
Industrial Machinery and Equipment	1,263	
Electric & Electronic Equipment	509	
Transportation Equipment	93	
Other Manufacturing	329	
Wholesale Trade		318
Banking		650
Finance/Insurance/Real Estate		421

Services	70
Other Industries	232
TOTAL ALL INDUSTRIES	7,124

Source: U.S. Department of Commerce, Bureau of Economic Analysis.